information, including the progress of remedial investigation at each site, the current status of discussions with regulatory authorities regarding the method and extent of remediation at each site, existing technology, prior experience in contaminated site remediation and the apportionment of costs among potentially responsible parties. As some of these issues are decided (the outcomes of which are subject to uncertainties) or new sites are assessed and costs can be reasonably estimated, Grace will continue to review and analyze the need for adjustments to the recorded accruals. However, Grace believes that it is adequately reserved for all probable and estimable environmental exposures. Grace's classification of its environmental reserves between current and noncurrent liabilities is based on expected future cash outlays.

Grace is in litigation with two excess insurance carriers regarding the applicability of the carriers' policies to Grace's environmental remediation costs. The outcome of such litigation, as well as the amounts of any recoveries that Grace may receive, is presently uncertain. Accordingly, Grace has not recorded a receivable with respect to such insurance coverage.

Grace made cash payments of $47.2 million in 2000, $25.0 million in 1999 and $36.9 million in 1998 to remediate environmentally impaired sites. These amounts have been charged against previously established reserves.

In February 2000, a putative class action lawsuit was filed in U.S. District Court in Missoula, Montana against Grace on behalf of all owners of real property situated within 12 miles of Libby, Montana that are improved private properties. The action alleges that the class members have suffered harm in the form of environmental contamination and loss of property rights resulting from Grace's former vermiculite mining and processing operations. The complaint seeks remediation, property damages and punitive damages. While Grace has not completed its investigation of the claims, and therefore is not able to assess the extent of any possible liability related to this lawsuit, it has no reason to believe that its former

activities caused damage to the environment or property.

In October 2000, a putative class action lawsuit was filed in the 4th District Court of Minneapolis, Minnesota, against Grace on behalf of all owners of real property situated near a former vermiculite processing plant in Northeast, Minneapolis. The action alleges that the class members have suffered harm in the form of environmental contamination and loss of property rights resulting from the former vermiculite processing operations. The complaint seeks remediation, property damages, and punitive damages. These activities are not expected to result in material liability to Grace.

CONTINGENT RENTALS

Grace is the named tenant or guarantor with respect to leases entered into by previously divested businesses. These leases, some of which extend through the year 2017, have future minimum lease payments aggregating $120.0 million, and are fully offset by anticipated future minimum rental income from existing tenants and subtenants. In addition, Grace is liable for other expenses (primarily property taxes) relating to the above leases; these expenses are paid by tenants and subtenants. Certain of the rental income and other expenses are payable by tenants and subtenants that have filed for bankruptcy protection or are otherwise experiencing financial difficulties. Grace believes that the risk of significant loss from these lease obligations is remote.

INCOME TAXES

The Internal Revenue Service (IRS), on a comprehensive national level, is challenging the deductibility of interest on policy loans related to corporate owned life insurance (COLI) policies for years prior to January 1, 1999. In 2000 Grace paid $21.2 million of tax and interest related to this issue for tax years 1990-1992. Subsequent to 1992, Grace deducted approximately $163.2 million in interest attributable to COLI policy loans. Grace filed a claim for refund of the amount paid to date and will contest any future IRS assessments on the grounds that these insurance policies and related loans had, and continue to have a valid business purpose, that the COLI policies have economic substance and that interest deductions claimed were in compliance with tax laws in effect at the time.

Subsequent to year-end, a U. S. District Court ruling, American Electric Power, Inc. vs. United States, denied interest deductions of a taxpayer in a similar situation. Until this ruling, Grace's accounting reflected its estimate of resolution in connection with ongoing tax examinations. Accordingly, Grace has recorded an additional accrual of $75.0 million (net of tax benefits) for additional tax exposure and related interest through 2000.

The IRS also has assessed additional federal income tax withholding and Federal Insurance Contributions Act taxes plus interest and related penalties for calendar years 1993 through 1995 related to a subsidiary of Grace that formerly held a majority interest in CCS. The assessments, aggregating $21.8 million, were made in connection with a meal and incidental expense per diem plan for travelling healthcare personnel which was in effect through 1999. In July 1999, Grace sold substantially all of its interest in CCS but retained the potential tax liability. The matter is currently pending in the U.S. Court of Claims.

Grace has received notification from a foreign taxing authority assessing tax deficiencies plus interest relating to the purchase and sale of foreign bonds in 1989 and 1990. This assessment, totaling $10.5 million, is related to the Bekaert Group, which Grace sold in 1991 but retained liability for tax deficiencies attributable to tax periods prior to the sale. The matter is currently before the foreign tax authorities, where protests have been filed, but no decision has been rendered.

FRAUDULENT CONVEYANCE

Grace and one of its subsidiaries have been named in a putative class action suit alleging that the 1996 reorganization involving a predecessor of Grace and Fresenius A.G. and the 1998 reorganization involving a predecessor of Grace and Sealed Air Corporation were fraudulent transfers. The suit is alleged to have been brought on behalf of all individuals who presently have lawsuits on file that are pursuing personal injury or wrongful death claims against any of the defendants. The other defendants in the suit have all asserted claims against Grace for indemnification. Grace believes that the suit is without merit.

ACCOUNTING FOR CONTINGENCIES

Although the outcome of each of the matters discussed above cannot be predicted with certainty, Grace has assessed its risk and has made accounting estimates as required under generally accepted accounting principles.

16. SHAREHOLDERS' EQUITY (DEFICIT)

Under its Certificate of Incorporation, the Company is authorized to issue 300,000,000 shares of common stock, $.01 par value. Of the common stock unissued at December 31, 2000, approximately 14,000,000 shares were reserved for issuance pursuant to stock options and other stock incentives. The Certificate of Incorporation also authorizes 53,000,000 shares of preferred stock, $.01 par value, none of which has been issued. 3,000,000 of such shares have been designated as Series A Junior Participating Preferred Stock and are reserved for issuance in connection with the Company's Preferred Stock Purchase Rights (Rights). A Right trades together with each outstanding share of common stock and entitles the holder to purchase one hundredth of a share of Series A Junior Participating Preferred Stock under certain circumstances and subject to certain conditions. The Rights are not and will not become exercisable unless and until certain events occur, and at no time will the Rights have any voting power.

In April 1998, the Company's Board of Directors approved a program to repurchase up to 20% of the Company's outstanding shares in the open market (approximately 15,165,000 shares). In total, the Company acquired 15,167,100 shares of common stock for $212.6 million under the program (at an average price per share of $14.01). During the year ended December 31, 2000, the Company acquired 3,061,800 shares of common stock for $35.1 million under the program (at an average price per share of $11.45). In January 1999, Grace retired 5,476,800 shares of treasury stock with a cost basis of $88.4 million.

In May 2000, the Company's Board of Directors approved a program to repurchase up to 12,000,000 of the Company's outstanding shares in the open market. During the year ended December 31, 2000, the Company acquired 1,753,600 shares of common stock for $12.2 million under the program (an average price per share of $6.98).

In 1997, Grace established a trust to fund certain deferred employee incentive compensation and nonemployee director compensation and benefits. Prior to the Packaging Business transaction discussed in Notes 1 and 4, the trust held only shares of Grace. Subsequent to the transaction, the trust held shares of Common Stock of the Company (classified as a component of Shareholder's Equity in the Consolidated Balance Sheet) and New Sealed Air common and convertible preferred stock. The trust held approximately 8,800 shares of New Sealed Air common stock and approximately 7,800 shares of New Sealed Air convertible preferred stock on December 31, 1999 with a fair market value of $0.9 million, which is classified as a component of "other assets" in the Consolidated Balance Sheet. During 2000, these shares were sold and the proceeds were used to purchase shares of Common Stock of the Company. At December 31, 2000, the trust holds only shares of Company Common Stock and accordingly the cost of those shares and the related liability are reported as a component of equity in the Consolidated Balance Sheet.

17. (LOSS) EARNINGS PER SHARE

The following table shows a reconciliation of the numerators and denominators used in calculating basic and diluted (loss) earnings per share from continuing operations.

EARNINGS PER SHARE (Amounts in millions, except per share amounts)	2000	1999	(Restated) 1998
NUMERATORS			
(Loss) income from continuing operations..............	$ (89.7)	$ 130.2	$ (194.7)
DENOMINATORS			
Weighted average common shares - basic calculation........	66.8	70.7	74.6
Effect of dilutive securities employee compensation-related shares..................	--	3.1	--
Weighted average common shares - diluted calculation......	66.8	73.8	74.6
BASIC (LOSS) EARNINGS PER SHARE	$ (1.34)	$ 1.84	$ (2.61)
DILUTED (LOSS) EARNINGS PER SHARE	$ (1.34)	$ 1.76	$ (2.61)

As a result of the 2000 and 1998 losses from continuing operations, approximately 800,000 and 3,470,600, respectively, of employee compensation-related shares, primarily stock options, were excluded from the diluted loss per share calculation because their effect would be antidilutive. Additionally, stock options that could potentially dilute basic loss per share in the future that were excluded from the computation of diluted loss per share, because their exercise prices were greater than the average market price of the common shares, averaged approximately

9.4 million in 2000, 3.1 million in 1999 and 2.2 million in 1998.

18. STOCK INCENTIVE PLANS

Each stock option granted under the Company's stock incentive plans has an exercise price equal to the fair market value of the Company's common stock on the date of grant. Options become exercisable at the time or times determined by a committee of the Company's Board of Directors and may have terms of up to ten years and one month. The following table sets forth information relating to such options, as so adjusted, during 2000, 1999 and 1998:

STOCK OPTION ACTIVITY	Number of Shares	Average Exercise Price
1998		
Balance at beginning of year.................	20,266,927	$ 8.11
Options granted.............................	3,316,826	19.12
Options exercised...........................	(7,351,329)	6.95
Options terminated or canceled..............	(1,942,554)	11.00
Balance at end of year......................	14,289,870	10.87
Exercisable at end of year..................	8,880,196	$7.56
1999		
Balance at beginning of year.................	14,289,870	$ 10.87
Options granted.............................	2,332,290	13.21
Options exercised...........................	(3,811,493)	7.30
Options terminated or canceled..............	(280,380)	16.21
Balance at end of year......................	12,530,287	12.27
Exercisable at end of year..................	9,212,495	$9.88
2000		
Balance at beginning of year.................	12,530,287	$ 12.27
Options granted.............................	2,555,000	13.32
Options exercised...........................	(779,863)	7.52
Options terminated or canceled..............	(300,215)	13.62
Balance at end of year......................	14,005,209	12.70
Exercisable at end of year..................	9,386,539	$11.96

At December 31, 2000, 6,051,813 shares were available for additional grants. Currently outstanding options expire on various dates through November 2009.

Following is a summary of stock options outstanding at December 31, 2000:

STOCK OPTIONS OUTSTANDING

EXERCISE PRICE RANGE	Number Outstanding at 12/31/00	Weighted-average Remaining Contractual Life	Weighted-average Exercise Price	Number Exercisable at 12/31/00	Weighted-average Exercise Price
$3 - $8	2,596,851	4.01	$ 6.10	2,568,351	$ 6.13
$8 - $13	8,155,366	7.74	12.32	4,454,780	11.57

$13 - $18	642,526	8.32	16.58	360,515	16.65
$18 - $21	2,610,466	8.02	19.46	2,002,893	19.47
	14,005,209	7.13	$ 12.70	9,386,539	$ 11.96

Concurrent with the Packaging Business transaction (see Notes 1 and 4), outstanding options to purchase Old Grace common stock that were held by employees of the Packaging Business were converted into options to purchase common stock of New Sealed Air. All other options were converted into options to purchase Common Stock of the Company. The number of shares covered by the options and the exercise prices of such options were adjusted to preserve their economic value.

In 2000, 1999 and 1998, the Company granted a total of 25,000, 45,000 and 246,933 shares, respectively, of the Company's Common Stock to certain executives, subject to various restrictions. Such shares are subject to forfeiture if certain employment conditions are not met. For more information, see the Form of Restricted Share Award Agreements filed with the Company's Form 10-Q for the quarter ended March 31, 1998. At December 31, 2000, restrictions on all prior grants of restricted stock, net of forfeitures, lapse as follows: 2001 - 105,011 shares, 2002 -55,000 shares and 2003 - 5,000 shares. The fair value of the restricted shares at the date of grant is amortized to expense ratably over the restriction period.

SFAS No. 123, "Accounting for Stock-Based Compensation," permits the Company to follow the measurement provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and not recognize compensation expense for its stock-based incentive plans. Had compensation cost for the Company's stock-based incentive compensation plans been determined based on the fair value at the grant dates of awards under those plans, consistent with the methodology prescribed by SFAS No. 123, the Company's net income (loss) and related basic earnings (loss) per share for 2000, 1999 and 1998 would have been reduced to the pro forma amounts indicated below:

PROFORMA EARNINGS UNDER SFAS NO. 123 (Amounts in millions, except per share amounts)	2000	1999	(Restated) 1998
Net (loss) income:			
As reported................	$ (89.7)	$ 135.9	$ (229.1)
Pro forma (1)..............	(98.5)	128.0	(236.6)
Basic (loss) earnings per share:			
As reported................	$ (1.34)	$ 1.92	$ (3.07)
Pro forma (1)..............	(1.47)	1.81	(3.17)

(1) These pro forma amounts may not be indicative of future income (loss) and earnings (loss) per share.

To determine compensation cost under SFAS No. 123, the fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model, with the following historical weighted average assumptions applied to grants in 2000, 1999 and 1998:

OPTION VALUE ASSUMPTIONS	2000	1999	1998
Dividend yield.............	--%	--%	--%
Expected volatility.........	59%	39%	30%
Risk-free interest rate.....	6.7%	5%	5%
Expected life (in years)....	4	4	4

Based upon the above assumptions, the weighted average fair value of each option granted was $6.86 per share for 2000, $5.05 per share for 1999 and $6.15 per share for 1998.

19. PENSION PLANS AND OTHER POSTRETIREMENT BENEFIT PLANS

Grace maintains defined benefit pension plans covering employees of certain units who meet age and service requirements. Benefits are generally based on final average salary and years of service. Grace funds its U.S. pension plans in accordance with U.S. federal laws and regulations. Non-U.S. pension plans are funded under a variety of methods, as required under local laws and customs, and therefore cannot be summarized.

During 1998, Grace made certain amendments to one of its domestic pension plans which included offering a lump sum settlement option to former Grace employees not currently receiving benefits. During the second quarter of 1999, a significant number of the lump sum offers were settled. In accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Plans and for Termination Benefits," the Company recognized a pre-tax loss of $11.0 million in connection with these settlements. A pre-tax noncash charge of $9.1 million ($5.7 million after tax) is included in "Income from discontinued operations, net of tax" in the Consolidated Statement of Operations relating to settlements of the lump sum offers with former Packaging Business employees. A pre-tax noncash charge of $1.9 million is included in "Selling, general and administrative expenses" in the Consolidated Statement of Operations for settlements relating to former Grace employees not associated with the former Packaging Business.

The Packaging Business transaction also required the Company to split certain pension plans and recognize a net curtailment loss for other plans. In accordance with SFAS No. 88, the Company recognized a pre-tax loss of $8.4 million ($5.5 million after tax) in 1998, in connection with these plans. This net pre-tax loss is included in "Income from discontinued operations, net of tax" in the Consolidated Statement of Operations.

Grace provides certain other postretirement health care and life insurance benefits for retired employees of specified U.S. units. The retiree medical insurance plans provide various levels of benefits to employees (depending on their dates of hire) who retire from Grace after age 55 with at least 10 years of service. These plans are unfunded, and Grace pays the costs of benefits under these plans as they are incurred. Grace applies SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," which requires that the future costs of postretirement health care and life insurance benefits be accrued over the employees' years of service.

An amendment to the structure of the retiree-paid premiums for postretirement medical benefits was approved by Grace's Board in November 2000. The amendment became effective January 1, 2001, and requires all retirees and beneficiaries covered by the postretirement medical plan to contribute a minimum of 20% of the calculated premium for that coverage. During 1998, Grace's Board approved changes to the postretirement medical plan. These changes include "caps" for pre-65 retirees and post-65 retirees, changes in the method used to coordinate with Medicare, and changes in deductible and coinsurance levels.

The following summarizes the changes in benefit obligation and fair value of plan assets during the period:

CHANGE IN FINANCIAL STATUS OF RETIREMENT PLANS (Dollars in millions)	PENSION U.S. 2000	PENSION U.S. 1999	PENSION NON-U.S. 2000	PENSION NON-U.S. 1999
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	$ 765.7	$ 918.7	$ 196.9	$ 235.9
Service cost	6.3	7.3	3.8	5.2
Interest cost	54.5	57.7	11.4	11.6
Plan participants' contributions	--	--	0.5	0.7
Amendments	2.4	--	0.1	--
Acquisitions/(Divestitures)	8.3	--	--	--
Curtailments/settlements recognized gains	--	--	--	(3.7)
Actuarial (gain) loss	(17.7)	(42.7)	13.8	(22.2)
Benefits paid	(78.5)	(175.3)	(11.5)	(13.1)
Currency exchange translation adjustments	--	--	(15.8)	(17.5)
Benefit obligation at end of year	$ 741.0	$ 765.7	$ 199.2	$ 196.9
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	$ 899.9	$ 912.1	$ 224.1	$ 211.8
Actual return on plan assets	(28.6)	156.0	(1.6)	28.9
Employer contribution	7.4	7.1	4.0	4.7
Plan participants' contribution	--	--	0.5	0.7
Benefits paid	(78.5)	(175.3)	(12.2)	(13.9)
Currency exchange translation adjustment	--	--	(16.5)	(8.1)
Fair value of plan assets at end of year	$ 800.2	$ 899.9	$ 198.3	$ 224.1
Funded status	$ 59.2	$ 134.2	$ (0.9)	$ 27.2
Unrecognized transition (asset)/obligation	(9.3)	(19.3)	0.9	0.8
Unrecognized actuarial loss (gain)	98.9	9.4	14.6	(20.1)
Unrecognized prior service cost/(benefit)	31.0	28.9	4.6	5.6
Net amount recognized	$ 179.8	$ 153.2	$ 19.2	$ 13.5
Amounts recognized in the Consolidated Balance Sheet consist of:				
Assets in excess of pension obligation	$ 127.9	$ 198.5	$ 72.2	$ 100.4
Unamortized costs of overfunded plans	95.6	(5.0)	9.1	(22.6)
Deferred retirement plan costs	(93.3)	(87.6)	(74.5)	(74.2)
Unamortized costs of underfunded plans	25.0	24.0	11.0	9.1
Intangible asset	6.9	8.1	1.2	0.4
Accumulated other comprehensive loss	17.7	15.2	0.2	0.4
Net amount recognized	$ 179.8	$ 153.2	$ 19.2	$ 13.5
WEIGHTED AVERAGE ASSUMPTIONS AS OF DECEMBER 31				
Discount rate	7.5%	8.0%	2.3-15.0%	2.3-15.0%
Expected return on plan assets	9.0	9.0	5.0-15.0	5.0-15.0
Rate of compensation increase	4.5	4.5	2.0-14.0	2.0-14.0

CHANGE IN FINANCIAL STATUS OF RETIREMENT PLANS (Dollars in millions)	PENSION TOTAL 2000	PENSION TOTAL 1999	OTHER POST-RETIREMENT PLANS 2000	OTHER POST-RETIREMENT PLANS 1999
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	$ 962.6	$ 1,154.6	$ 182.7	$ 193.9
Service cost	10.1	12.5	0.6	0.8
Interest cost	65.9	69.3	14.4	12.8
Plan participants' contributions	0.5	0.7	--	--
Amendments	2.5	--	(20.0)	--
Acquisitions/(Divestitures)	8.3	--	--	--
Curtailments/settlements recognized gains	--	(3.7)	--	--
Actuarial (gain) loss	(3.9)	(64.9)	22.0	(5.2)
Benefits paid	(90.0)	(188.4)	(23.0)	(19.6)
Currency exchange translation adjustments	(15.8)	(17.5)	--	--
Benefit obligation at end of year	$ 940.2	$ 962.6	$ 176.7	$ 182.7
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	$ 1,124.0	$ 1,123.9	$ --	$ --
Actual return on plan assets	(30.2)	184.9	--	--
Employer contribution	11.4	11.8	23.0	19.6
Plan participants' contribution	0.5	0.7	--	--
Benefits paid	(90.7)	(189.2)	(23.0)	(19.6)
Currency exchange translation adjustment	(16.5)	(8.1)	--	--
Fair value of plan assets at end of year	$ 998.5	$ 1,124.0	$ --	$ --
Funded status	$ 58.3	$ 161.4	$ (176.7)	$ (182.7)
Unrecognized transition (asset)/obligation	(8.4)	(18.5)	--	--
Unrecognized actuarial loss (gain)	113.5	(10.7)	61.9	42.1
Unrecognized prior service cost/(benefit)	35.6	34.5	(74.3)	(60.8)
Net amount recognized	$ 199.0	$ 166.7	$ (189.1)	$ (201.4)
Amounts recognized in the Consolidated Balance Sheet consist of:				
Assets in excess of pension obligation	$ 200.1	$ 298.9	$ --	$ --
Unamortized costs of overfunded plans	104.7	(27.6)	--	--
Deferred retirement plan costs	(167.8)	(161.8)	(176.7)	(182.7)
Unamortized costs of underfunded plans	36.0	33.1	(12.4)	(18.7)

Intangible asset	8.1	8.5	N/A	N/A
Accumulated other comprehensive loss	17.9	15.6	N/A	N/A
Net amount recognized	$ 199.0	$ 166.7	$ (189.1)	$ (201.4)
WEIGHTED AVERAGE ASSUMPTIONS AS OF DECEMBER 31				
Discount rate	N/M	N/M	7.5%	8.0%
Expected return on plan assets	N/M	N/M	N/M	N/M
Rate of compensation increase	N/M	N/M	N/M	N/M

COMPONENTS OF NET PERIODIC BENEFIT (INCOME) COST (Dollars in millions)	2000 U.S.	2000 NON-U.S.	2000 OTHER	1999 U.S.	1999 Non-U.S.
Service cost	$ 6.3	$ 3.8	$ 0.6	$ 7.3	$ 5.2
Interest cost	54.5	11.4	14.4	57.7	11.8
Expected return on plan assets	(78.2)	(18.2)	--	(76.0)	(17.1)
Amortization of transition asset	(10.0)	(0.2)	--	(11.5)	(0.2)
Amortization of prior service cost (benefit)	7.4	0.6	(6.7)	7.0	0.6
Amortization of unrecognized actuarial loss	0.8	(0.4)	2.4	3.9	0.3
Net curtailment and settlement loss	--	--	--	11.0	0.2
Net periodic benefit (income) cost	$ (19.2)	$ (3.0)	$ 10.7	$ (0.6)	$ 0.8

COMPONENTS OF NET PERIODIC BENEFIT (INCOME) COST (Dollars in millions)	1999 Other	1998 U.S.	1998 Non-U.S.	1998 Other
Service cost	$ 0.8	$ 7.1	$ 6.5	$ 0.9
Interest cost	12.8	55.7	12.6	16.6
Expected return on plan assets	--	(72.4)	(19.3)	--
Amortization of transition asset	--	(11.5)	(0.2)	--
Amortization of prior service cost (benefit)	(6.7)	7.2	0.3	(2.8)
Amortization of unrecognized actuarial loss	2.7	1.4	0.3	1.1
Net curtailment and settlement loss	--	8.4	1.3	--
Net periodic benefit (income) cost	$ 9.6	$ (4.1)	$ 1.5	$ 15.8

PENSION PLANS WHERE ACCUMULATED BENEFIT OBLIGATIONS EXCEED PLAN ASSETS (Dollars in millions)	U.S. 2000	U.S. 1999	NON-U.S. 2000	NON-U.S. 1999	OTHER POST-RETIREMENT PLANS 2000	OTHER POST-RETIREMENT PLANS 1999
Projected benefit obligation	$ 68.7	$ 64.3	$ 72.4	$ 77.6	N/A	N/A
Accumulated benefit obligation	68.2	63.6	62.0	66.8	$ 176.7	$ 182.7
Fair value of plan assets	--	--	0.6	4.0	--	--

N/M - Not meaningful
N/A - Not applicable

For measurement purposes, a 6.0% rate of increase in the per capita cost of covered health care benefits was assumed for 2000. The rate was assumed to decrease gradually to 5.0% through 2003 and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point increase (decrease) in assumed health care cost trend rates would increase (decrease) total service and interest cost components by $0.1 million and $(0.1) million, respectively, and increase (decrease) postretirement benefit obligations by $1.0 million and $(1.2) million, respectively.

20. BUSINESS SEGMENT INFORMATION

Grace is a global producer of specialty chemicals and specialty materials. It generates revenues from two business segments: Davison Chemicals and Performance Chemicals. Performance Chemicals was formed in 1999 by combining the previously separate business segments of Grace Construction Products and Darex Container Products. These businesses were consolidated under one management team to capitalize on infrastructure synergies from co-location of headquarters and production facilities around the world. Davison Chemicals produces a variety of catalysts and silica products. Performance Chemicals produces specialty construction chemicals, building materials and container protection products. Intersegment sales, eliminated in consolidation, are not material. The table below presents information related to Grace's business segments for 2000, 1999 and 1998; in connection with the adoption of SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," only those corporate expenses directly related to the segment are allocated for reporting purposes. All remaining corporate items are reported separately and labeled as such.

BUSINESS SEGMENT DATA (Dollars in millions)	2000	1999	1998
NET SALES			
Davison Chemicals.............	$ 783.9	$ 751.1	$ 761.4
Performance Chemicals.........	813.5	799.8	784.8
Total.........................	$ 1,597.4	$ 1,550.9	$ 1,546.2
PRE-TAX OPERATING INCOME			
Davison Chemicals.............	$ 131.6	$ 124.3	$ 107.5
Performance Chemicals.........	95.5	105.8	78.1
Total.........................	$ 227.1	$ 230.1	$ 185.6
DEPRECIATION AND AMORTIZATION			
Davison Chemicals.............	$ 57.2	$ 59.2	$ 61.3
Performance Chemicals.........	29.3	28.8	28.3
Total.........................	$ 86.5	$ 88.0	$ 89.6
CAPITAL EXPENDITURES			
Davison Chemicals.............	$ 33.7	$ 48.0	$ 60.5
Performance Chemicals.........	28.3	30.7	39.5
Total.........................	$ 62.0	$ 78.7	$ 100.0
TOTAL ASSETS			
Davison Chemicals.............	$ 632.3	$ 590.3	$ 603.7
Performance Chemicals.........	479.1	478.3	459.9
Total.........................	$ 1,111.4	$ 1,068.6	$ 1,063.6

The table below presents information related to the geographic areas in which Grace operated in 2000, 1999 and 1998.

GEOGRAPHIC AREA DATA (Dollars in millions)	2000	1999	1998
NET SALES			
United States.....................	$ 825.6	$ 783.5	$ 793.5
Canada and Puerto Rico............	34.4	32.6	33.1
Germany...........................	270.9	290.7	267.2
Europe, other than Germany........	145.9	156.6	157.0
Asia Pacific......................	216.8	205.7	205.9
Latin America.....................	103.8	81.8	89.5
Total.............................	$ 1,597.4	$ 1,550.9	$ 1,546.2
PROPERTIES AND EQUIPMENT, NET			
United States.....................	$ 408.3	$ 399.0	$ 423.3
Canada and Puerto Rico............	19.9	20.8	20.1
Germany...........................	61.5	71.3	84.7
Europe, other than Germany........	39.6	46.8	53.9
Asia Pacific......................	54.7	61.9	58.6
Latin America.....................	17.7	17.5	20.8
Total.............................	$ 601.7	$ 617.3	$ 661.4

Pre-tax operating income, depreciation and amortization, capital expenditures and total assets for Grace's business segments are reconciled below to amounts presented in the Consolidated Financial Statements.

RECONCILIATION OF BUSINESS SEGMENT DATA TO FINANCIAL STATEMENTS (Dollars in millions)	2000	(Restated) 1999	(Restated) 1998
Pre-tax operating income - operating segments........................	$ 227.1	$ 230.1	$ 185.6
Gain on note receivable............	--	18.5	--
Gain on disposal of assets.........	5.5	13.6	--
Provision for environmental charges, net............................	--	--	38.2
Provisions relating to asbestos-related liabilities and insurance coverage..............	(208.0)	--	(376.1)
Interest expense and related financing costs...........................	(28.1)	(16.1)	(19.8)
Corporate operating costs..........	(40.0)	(52.0)	(53.8)
Other, net.........................	23.8	9.3	2.7
(Loss) income from continuing operations before income taxes.....	$ (19.7)	$ 203.4	$ (223.2)
Depreciation and amortization - operating segments..............	$ 86.5	$ 88.0	$ 89.6
Depreciation and amortization - corporate......................	1.3	1.2	2.5
Total depreciation and amortization	$ 87.8	$ 89.2	$ 92.1
Capital expenditures - operating segments........................	$ 62.0	$ 78.7	$ 100.0
Capital expenditures - corporate...	2.8	3.8	0.9
Total capital expenditures.........	$ 64.8	$ 82.5	$ 100.9
Total assets - operating segments..	$ 1,111.4	$ 1,068.6	$ 1,063.6
Total assets - corporate...........	615.1	595.9	571.0
Asbestos-related receivables.......	372.0	371.4	443.0
Deferred tax assets................	487.2	440.0	470.4
Net assets of discontinued operations	(0.8)	(0.8)	8.3
Total assets......................	$ 2,584.9	$ 2,475.1	$ 2,556.3

QUARTERLY SUMMARY AND STATISTICAL INFORMATION (Unaudited)
(Dollars in millions, except per share)

		March 31		June 30		September 30		December 31
2000								
Net sales (1)	$	384.7	$	405.1	$	415.7	$	391.9
Cost of goods sold and operating expenses (1)		233.8		239.6		252.4		249.3
Income (loss) from continuing operations		24.2		34.6		34.1		(182.6)
Net income (loss)		24.2		34.6		34.1		(182.6)
Net income per share: (2)								
Basic earnings per share:								
Continuing operations	$	0.35	$	0.51	$	0.51	$	(2.60)
Net income (loss)		0.35		0.51		0.51		(2.60)
Diluted earnings per share:								
Continuing operations		0.35		0.50		0.51		(2.60)
Net income (loss)		0.35		0.50		0.51		(2.60)
Market price of common stock: (4)								
High	$	14 15/16	$	14 5/8	$	12 5/8	$	7 1/8
Low		9 1/2		11 3/8		6 9/16		1 5/16
Close		12 7/8		12 3/8		6 7/8		3 3/16
1999 (3)								
Net sales (1)	$	365.3	$	391.8	$	391.6	$	402.4
Cost of goods sold and operating expenses (1)		226.5		231.5		231.2		240.2
Income from continuing operations		18.8		30.4		32.8		48.2
Net income		20.5		25.7		42.0		48.2
Net income per share: (2)								
Basic earnings per share:								
Continuing operations	$	0.26	$	0.44	$	0.46	$	0.68
Net income		0.28		0.37		0.59		0.68
Diluted earnings per share:								
Continuing operations		0.25		0.42		0.44		0.66
Net income		0.27		0.35		0.56		0.66
Market price of common stock: (4)								
High	$	16 11/16	$	19 1/4	$	21	$	17 9/16
Low		11 13/16		12		15 1/4		12 13/16
Close		12 3/4		19		16 3/8		14 1/8

(1) The net sales and cost of goods sold amounts presented above reflect a reclassification of freight costs and sales commissions (previously shown as a reduction of sales) to cost of sales and selling expenses, in accordance with Emerging Issues Task Force Consensus No. 00-10, "Accounting for Shipping and Handling Revenues and Costs."

(2) Per share results for the four quarters may differ from full-year per share results, as a separate computation of the weighted average number of shares outstanding is made for each quarter presented.

(3) The 1999 quarterly summary and statistical information have been restated to reflect the classification of CCS as discontinued operations, as described in Note 4 of the Consolidated Financial Statements.

(4) Principal market: New York Stock Exchange.

FINANCIAL SUMMARY (1) (Dollars in millions, except per share amounts)

	2000	(Restated) 1999	(Restated) 1998	1997	1996
STATEMENT OF OPERATIONS					
Net sales	$ 1,597.4	$ 1,550.9	$ 1,546.2	$ 1,559.9	$ 1,795.5
Cost of goods sold and operating expenses	971.0	929.3	961.7	969.6	1,060.1
Depreciation and amortization	57.8	55.2	52.1	56.6	57.5
Interest expense and related financing costs	25.1	14.1	19.8	21.2	16.5
Research and development expenses	45.7	42.4	47.4	42.4	55.4
(Loss) income from continuing operations before income taxes	(15.7)	205.4	(225.2)	137.4	183.7
(Loss) income from continuing operations	(89.7)	130.2	(134.7)	85.9	112.9
Income from discontinued operations (2)		5.7	0.9	175.1	2,744.8
Net (loss) income	(89.7)	135.9	(220.1)	261.0	2,857.7
FINANCIAL POSITION					
Current assets	$ 773.9	$ 779.8	$ 625.6	$ 1,375.5	$ 1,774.9
Current liabilities	1,092.5	769.4	669.6	1,357.7	1,467.1
Properties and equipment, net	601.7	617.1	661.4	561.5	1,871.3
Total assets	2,584.0	2,475.3	2,566.3	3,765.4	4,945.8
Total debt	421.9	136.2	110.4	1,072.5	1,188.2
Shareholders' (deficit) equity - common	(71.3)	111.1	42.1	467.6	632.4
CASH FLOW					
Operating activities	$ (121.1)	$ 133.6	$ (66.9)	$ 236.4	$ 221.5
Investing activities	(121.8)	75.7	(114.0)	370.1	1,692.9
Financing activities	245.1	(77.5)	106.6	(621.1)	(1,967.8)
Net cash flow	(7.9)	134.5	17.9	(26.7)	23.5
DATA PER COMMON SHARE					
(Loss) income from continuing operations	$ (1.34)	$ 1.84	$ (2.61)	$ 1.16	$ 1.22
Net (loss) income	(1.34)	1.92	(3.02)	3.53	31.56
Dividends	-			.56	.50
Average common shares outstanding (thousands)	66,808	70,743	74,559	73,953	71,976
OTHER STATISTICS					
Dividends paid on common stock	$	$	$	$ 41.2	$ 45.6
Capital expenditures	64.6	82.5	100.5	258.7	456.6
Common stock price range (3)	34 15/16 - 1 5/16	21 - 11 13/16	21 11/16 - 10	18 3/16 - 9 7/8	12 1/2 - 7 1/8
Common shareholders of record	12,240	13,215	14,438	15,945	17,415
Number of employees - continuing operations	6,100	6,500	6,600	5,700	7,100

(1) Certain prior-year amounts have been reclassified to conform to the 2000 presentation and to reflect a reclassification of freight costs and sales commissions (previously shown as a reduction of sales) to cost of sales and selling expenses in accordance with Emerging Issues Task Force Consensus No. 00-10, "Accounting for Shipping and Handling Revenues and Costs."

(2) See Note 4 to the Consolidated Financial Statements for additional information.

(3) Stock prices have been adjusted so that they are on a basis comparable to the stock prices following the disposition of the Packaging Business as described in Notes 1 and 4 to the Consolidated Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

DESCRIPTION OF BUSINESS

Grace is engaged in specialty chemicals and specialty materials businesses on a global basis. Its principal business segments are Davison Chemicals, which produces catalysts and silica products, and Performance Chemicals, which produces construction chemicals, building materials and container products.

SUBSEQUENT EVENT - VOLUNTARY BANKRUPTCY FILING

On April 2, 2001, W. R. Grace & Co. and 61 of its United States subsidiaries and affiliates, including Grace-Conn. (collectively, the "Debtors"), filed voluntary petitions for reorganization (the "Filing") under Chapter 11 of the United States Bankruptcy Code ("Chapter 11" or the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). The cases were consolidated and are being jointly administered under case numbers 01-1139 through 01-1200. Grace's non-U.S. operating subsidiaries were not a part of the Filing.

The Filing was made in response to a sharply increasing number of asbestos-related bodily injury claims. These claims are discussed in more detail in Note 3 to the Consolidated Financial Statements. Under Chapter 11, the Debtors expect to continue to operate their businesses as debtors-in-possession under court protection from their creditors and claimants, while using the Chapter 11 process to develop and implement a plan for addressing the asbestos-related claims against them.

Background of Filing - On January 29, 2001, Grace announced that recent developments in asbestos-related litigation had led to a fourth quarter charge of $208.0 million (net of expected insurance recovery). The charge was made to account for probable and estimable costs related to several adverse developments in Grace's asbestos litigation during 2000, including: a significant increase in bodily injury claims; higher than expected costs to resolve bodily injury and certain property damage claims; and new class-action lawsuits alleging damages from a former attic insulation product not previously subject to property damage litigation. After this adjustment, Grace's recorded liability for asbestos-related litigation at December 31, 2000 is $1,105.9 million gross and $733.9 million net of insurance recovery. The estimated gross liability represents an undiscounted stream of payments in decreasing amounts over approximately 40 years. However, due to the Filing and the uncertainties of asbestos-related litigation, actual amounts could differ materially from the recorded liability.

Grace also announced on January 29, 2001 that it was reviewing the strategic and operating issues associated with continuing to defend asbestos litigation through the court system versus voluntarily seeking a resolution of such litigation through reorganization under Chapter 11. As a result of that review, the Board of Directors of Grace concluded on April 2, 2001 that a federal court-supervised Chapter 11 filing provides the best forum available to achieve predictability and fairness in the claims settlement process. By filing under Chapter 11, Grace expects to be able to both obtain a comprehensive resolution of the claims against it and preserve the inherent value of its businesses.

Consequence of Filing - As a consequence of the Filing, all pending litigation against the Debtors is stayed and no party may take any action to realize its pre-petition claims except pursuant to order of the Bankruptcy Court. It is the Debtors' intention to address all of their pending and future asbestos-related claims and all other pre-petition claims in a plan of reorganization. However, it is currently impossible to predict with any degree of certainty how the plan will treat asbestos and other pre-petition claims and the impact the Filing and any reorganization plan may have on the shares of common stock of Grace. Generally, under the provisions of the Bankruptcy Code, holders of equity interests may not participate under a plan of reorganization unless the claims of creditors are satisfied in full under the plan or unless creditors accept a reorganization plan that permits holders of equity interests to participate. The formulation and implementation of the plan of reorganization could take a significant period of time.

The accompanying Consolidated Financial Statements have been prepared on a going concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. However, as a result of the Filing, such realization of certain Debtors' assets and liquidation of certain Debtors' liabilities are subject to significant uncertainty. Further, a plan of reorganization could materially change the amounts

and classifications reported in the consolidated financial statements, which do not give effect to any adjustments to the carrying value or classification of assets or liabilities that might be necessary as a consequence of a plan of reorganization.

All of the Debtor's pre-petition debt is now in default due to the Filing. Accordingly, the accompanying Consolidated Balance Sheet as of December 31, 2000 reflects the classification of the Debtors' pre-petition debt as current.

The Debtors have negotiated a debtor-in-possession revolving credit facility with Bank of America, N.A. (the "DIP facility") in the aggregate amount of $250 million. The DIP facility has a term of 2 years and bears interest at either Bank of America's prime rate or a formula based on the LIBOR rate plus 2.00% to 2.25%. The Bankruptcy Court issued an interim approval of the DIP facility, which allows the Debtors to draw on the DIP facility for 15 days in an amount not to exceed $50 million.

The Debtors have received approval from the Bankruptcy Court to pay or otherwise honor certain of its pre-petition obligations, including claims of trade creditors to a specified amount and employee wages and benefits in the ordinary course of business.

Accounting Impact - Beginning in the second quarter of 2001, Grace will be required to follow Statement of Position 90-7 ("SOP 90-7"), "Financial Reporting by Entities in Reorganization under the Bankruptcy Code." Pursuant to SOP 90-7, Grace's pre-petition liabilities that are subject to compromise will be reported separately on the balance sheet at an estimate of the amount that will ultimately be allowed by the Bankruptcy Court. Obligations of Grace subsidiaries not covered by the Filing will remain classified on the consolidated balance sheet based upon maturity dates or the expected dates of payment. SOP 90-7 also requires separate reporting of certain expenses, realized gains and losses, and provisions for losses related to the Filing as reorganization items.

Pro-Forma Balance Sheet Information (Unaudited) - The condensed balance sheet of the Debtors as if the Debtors had filed petitions for reorganization under Chapter 11 at December 31, 2000 is as follows:

PRO-FORMA CONDENSED BALANCE SHEET OF DEBTORS

(UNAUDITED) (Dollars in millions)	DECEMBER 31, 2000
Current Assets:	
Cash and cash equivalents	$ 37.5
Notes and accounts receivable, net	32.8
Inventories	75.2
Other current assets	81.2
Total current assets	226.7
Properties and equipment, net	410.0
Asbestos-related insurance receivable	372.0
Deferred income taxes	482.6
Loans to non-debtor entities	407.0
Investment in non-debtor entities	148.3
Other noncurrent assets	414.3
Total assets	$2,460.9
Liabilities Subject to Compromise:	
Debt	$ 409.1
Asbestos-related liability	1,105.9
Other liabilities	955.4
Total liabilities	2,470.4
Equity	(9.5)
Total liabilities and equity	$2,460.9

CONTINUING OPERATIONS

Set forth below is a chart that lists key operating statistics and percentage changes for the years ended December 31, 2000, 1999 and 1998. Immediately following the chart is an overview of the matters affecting the comparison of 2000 and 1999. Each of these items should be referenced when reading management's discussion and analysis of the results of continuing operations. The chart below, as well as the financial information presented throughout this discussion, divides Grace's financial results between "core operations" and "noncore activities." Core operations comprise the financial results of Davison Chemicals, Performance Chemicals and the costs of corporate activities that directly or indirectly support business operations. In contrast, noncore activities comprise all other events and transactions that are not directly related to the generation of operating revenue or the support of core operations. Grace's financial strategy is to maximize returns and cash flows from core operations to fund business growth and to provide resources to satisfy its obligations that remain from past businesses, products and events.

ANALYSIS OF CONTINUING OPERATIONS
(Dollars in millions)

	2000	1999 (a)	% Change Fav(Unfav)	1998 (a)	% Change Fav(Unfav)
NET SALES:					
Davison Chemicals	$ 783.9	$ 751.1	4.4%	$ 761.4	(1.4%)
Performance Chemicals	813.5	799.8	1.7%	784.8	1.9%
TOTAL GRACE SALES - CORE OPERATIONS	$ 1,597.4	$ 1,550.9	3.0%	$ 1,546.2	0.3%
PRE-TAX OPERATING INCOME:					
Davison Chemicals	$ 131.6	$ 124.3	5.9%	$ 107.5	15.6%
Performance Chemicals	95.5	105.8	(9.7%)	78.1	35.5%
Corporate operating costs	(40.0)	(52.0)	23.1%	(53.8)	3.3%
PRE-TAX INCOME FROM CORE OPERATIONS	187.1	178.1	5.0%	131.8	35.1%
PRE-TAX (LOSS) INCOME FROM NONCORE ACTIVITIES	(188.4)	37.2	NM	(340.1)	NM
Interest expense	(28.1)	(16.1)	(74.5%)	(19.8)	18.7%
Interest income	9.7	4.2	131.0%	4.9	(14.3%)
(LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(19.7)	203.4	NM	(223.2)	NM
(Provision for) benefit from income taxes	(70.0)	(73.2)	NM	28.5	NM
(LOSS) INCOME FROM CONTINUING OPERATIONS	$ (89.7)	$ 130.2	NM	$ (194.7)	NM
KEY FINANCIAL MEASURES:					
Pre-tax income from core operations as a percentage of sales	11.7%	11.5%	0.2pts	8.5%	3.0pts
Pre-tax income from core operations before Depreciation and amortization	$ 274.9	$ 267.3	2.8%	$ 223.9	19.4%
As a percentage of sales	17.2%	17.2%	--	14.5%	2.7 pts

NM = Not meaningful

a = Net sales amounts presented herein reflect a reclassification of freight costs and sales commissions (previously shown as a reduction of sales)

MATTERS AFFECTING COMPARISON

Several major factors affect the comparison of earnings from continuing operations between 2000 and 1999. The factors affecting core operations include sales generated from six acquisitions, continued contribution from Grace's productivity initiatives, including Six Sigma, softening of the construction market, continued strength of the U.S. dollar, and increased energy costs, including natural gas and petroleum - based raw materials.

The primary factor affecting noncore activities has been the increasingly difficult asbestos litigation environment, which led to an adjustment in the

fourth quarter of 2000 of $208.0 million after insurance. In 2000, Grace experienced an 81% increase in the number of claims filed compared with 1999 and higher settlement and litigation costs.

The effect of each of these factors will be quantified throughout management's discussion and analysis.

NET SALES

The following table identifies the year-over-year increase or decrease in sales attributable to changes in product volumes, product prices and/or mix, and the impact of foreign currency translation.

NET SALES VARIANCE ANALYSIS	2000 AS A PERCENTAGE INCREASE (DECREASE) FROM 1999			
	VOLUME	PRICE/MIX	TRANSLATION	TOTAL
Davison Chemicals......	5.2%	4.4%	(5.2%)	4.4%
Performance Chemicals .	3.8%	0.4%	(2.5%)	1.7%
Net sales..............	4.5%	2.3%	(3.8%)	3.0%
By Region:				
North America........	3.2%	2.2%	--	5.4%
Europe...............	3.1%	2.7%	(12.5%)	(6.7%)
Latin America........	26.8%	2.9%	(2.8%)	26.9%
Asia Pacific.........	3.5%	2.2%	(0.5%)	5.2%
	1999 AS A PERCENTAGE INCREASE (DECREASE) FROM 1998			
Davison Chemicals......	0.6%	(0.7%)	(1.3%)	(1.4%)
Performance Chemicals..	1.8%	1.6%	(1.5%)	1.9%
Net sales..............	1.2%	0.5%	(1.4%)	0.3%
By Region:				
North America........	(2.6%)	1.1%	0.0%	(1.5%)
Europe...............	9.3%	0.5%	(4.5%)	5.3%
Latin America........	(3.8%)	7.9%	(12.5%)	(8.4%)
Asia Pacific.........	1.3%	(5.6%)	4.3%	(0.0%)

In both 2000 and 1999, volume and foreign currency translation were the primary factors affecting the change in net sales, as the impact of price changes and product mix was modest. In 2000, Latin America experienced the most significant volume increase, attributable to an acquisition in Chile and unusually unfavorable order patterns in 1999. The 2000 net sales reported for Grace's international operations, particularly in Europe, were significantly impacted by the translation of weakened currencies in relation to the U. S. dollar.

In 2000, each segment experienced volume growth, with the silica products and construction chemicals groups experiencing significant volume increases of 6.3% and 6.2%, respectively, primarily attributable to acquisitions. Refining catalysts also experienced strong volume growth of 6.4% in 2000.

In 1999, all product groups, except for refining catalysts and container sealants, experienced volume growth. A downturn in demand for refining catalysts in North America and softness of the Latin American market for container sealants were the primary causes for declines. The most significant volume increases were experienced in silica products (5.3%) in all regions except North America, and in construction chemicals (6.5%) in all regions, with Asia Pacific experiencing the highest growth rate.

PRE-TAX INCOME FROM CORE OPERATIONS

Pre-tax income from core operations was $187.1 million for the year ended December 31, 2000, compared to $178.1 million for the year ended December 31, 1999, an increase of 5.0%. This increase was primarily attributable to a $12.0 million, or 23.1%, reduction in corporate operating costs as Grace realized savings resulting from the move of its corporate headquarters from Boca Raton, Florida to Columbia, Maryland.

Operating income of Davison Chemicals for 2000 was $131.6 million, up 5.9% versus 1999, as Six Sigma and other productivity initiatives offset rising natural gas prices. Davison's operating margin of 16.8% was relatively flat compared to the prior year. Operating income of Performance Chemicals for 2000 was $95.5 million, down 9.7% from 1999, with an operating margin of 12.2%, down 1.5 percentage points from 1999. These unfavorable results were attributable to both decreased sales resulting from a softening of the worldwide construction market and increased raw material and transportation costs.

During 2000, Grace continued to focus on productivity improvement, which produced a 3.3% reduction in unit costs on a constant dollar basis. The following table provides the productivity index for each business segment and Grace's core operations in total. The index is calculated using 1998 as the base year and carving out selling price changes, currency movement and cost inflation in every year since the base year. The resulting change in cost per dollar of sales is Grace's productivity measure. Changes in product volume and mix remain in the productivity equation.

	2000	1999	% Change
PRODUCTIVITY INDEX			
COST PER $ OF SALES ON A CONSTANT $ BASIS WITH 1998 AS BASE YEAR:			
Davison Chemicals	$ 0.794	$ 0.828	4.1%
Performance Chemicals.......	0.829	0.859	3.5%
Corporate operating cost....	0.024	0.034	29.4%
Total core operations.......	$ 0.848	$ 0.877	3.3%

Grace is targeting pre-tax income from core operations in 2001 to improve by approximately 5% to 10% over 2000. The Davison Chemicals business is expected to continue to be adversely affected by high natural gas and raw material costs and the Performance Chemicals business is likely to be affected by continued softness of construction activity and increasing petroleum-based costs. A large factor in profit improvement will be the continued success of Grace's productivity initiatives, including Six Sigma projects.

PRE-TAX (LOSS) INCOME FROM NONCORE ACTIVITIES

The net loss from noncore activities totaled $188.4 million for 2000 compared to net income from noncore activities of $37.2 million for 1999. The 2000 results included a net asbestos charge (after expected insurance recovery) of $208.0 million. This charge was necessary to account for adverse developments in the latter part of 2000 (see "Subsequent Event - Voluntary Bankruptcy Filing" above). The 2000 net loss also includes $15.0 million of accruals for legal and environmental matters related to the Company's former operations in Libby, Montana and legal fees related to certain tax matters. Income in 1999 included an $18.5 million gain from the settlement of notes received as partial consideration when Grace sold its printing products business in 1994; a $4.8 million gain from sales of noncore real estate; and a $4.4 million gain from the sale of a corporate aircraft. The remainder of the year-over-year change after adjusting for these unusual items in 2000 and 1999 consists of

increased income generated on the Company's pension assets ($24.3 million in 2000 compared to $12.7 million in 1999) and increased revenue from sales of marketable securities ($19.0 million in 2000 compared to $9.3 million in 1999). The net loss from noncore activities of $340.1 million in 1998 was primarily due to an adjustment in the fourth quarter of $376.1 million (net of insurance recovery) for asbestos-related litigation offset by insurance recovery of $38.2 million related to environmental remediation.

INTEREST AND INCOME TAXES

Net interest expense for 2000 was $18.4 million, an increase of 54.6% from net interest expense of $11.9 million in 1999. This increase was attributable to increased average borrowings under the Company's revolving credit facilities during 2000 to fund acquisitions, capital expenditures and noncore obligations. Net interest expense decreased 20.1% in 1999 over 1998 net interest expense of $14.9 million.

The Company's benefit from income taxes at the federal corporate rate of 35% was $6.9 million for the year ended December 31, 2000. However, the Company recorded an accrual of $75.0 million in the fourth quarter of 2000 to account for potential additional taxes and interest relating to the tax deductibility of interest on the COLI policy loans. This accrual resulted from the fact that subsequent to year-end, a U. S. District Court ruling denied interest deductions related to interest on COLI policy loans of a taxpayer in a similar situation as Grace. The 2001 effective tax rate will also be significantly impacted by the interest relating to the tax deductibility of interest on the COLI policy loans as well as the non-deductible fees related to the Filing.

In 2000, Grace paid $21.2 million of tax and interest related to deductions claimed in 1990 through 1992. Subsequent to 1992, Grace deducted approximately $163.2 million of interest attributable to COLI policy loans. Grace filed a claim for refund of the amount paid to date however, Grace could be required to make additional payments to the IRS, beginning in late 2002, while the issue is being contested.

The Company's provision for income taxes at the federal corporate rate was $71.2 million for the year ended December 31, 1999. The primary difference between this amount and the provision for income taxes at the effective rate of $73.2 million were state and local income taxes.

DAVISON CHEMICALS

NET SALES	2000	1999	% Change Fav(Unfav)
Refining catalysts	$ 445.7	$ 424.9	4.9%
Chemical catalysts..........	117.0	113.3	3.3%
Silica products.............	221.2	212.9	3.9%
TOTAL DAVISON CHEMICALS.....	$ 783.9	$ 751.1	4.4%

	1999	1998	% Change Fav(Unfav)
Refining catalysts	$ 424.9	$ 444.0	(4.3%)
Chemical catalysts..........	113.3	106.3	6.6%
Silica products.............	212.9	211.1	0.8%
TOTAL DAVISON CHEMICALS.....	$ 751.1	$ 761.4	(1.4%)

Recent Acquisitions

On January 31, 2000 Grace acquired Crosfield Group's hydroprocessing catalyst business from Imperial Chemical Industries PLC ("ICI"). This business had approximately $14 million of sales for 2000. In June 2000, Grace acquired the Ludox colloidal silica business from the DuPont Company, sales from which accounted for approximately $13 million in silica products for the year 2000. These acquisitions have been accounted for as a purchase business combination, and accordingly, the results of operations of the acquired businesses have been included in the consolidated statement of operations from the date of their respective acquisitions.

Sales

Davison Chemicals is a leading global supplier of catalysts and silica products. Refining catalysts, which represented approximately 28% of 2000 and 1999 total Grace sales (29% - 1998), include fluid cracking catalysts (FCC) used by petroleum refiners to convert distilled crude oil into transportation fuels and other petroleum-based products, hydroprocessing catalysts which upgrade heavy oils and remove certain impurities, and chemical additives for treatment of feedstock impurities. Chemical catalysts, which represented 7% of 2000, 1999 and 1998 total Grace sales, include polyolefin catalysts, which are essential components in the manufacturing of polyethylene resins used in products such as plastic film, high-performance plastic pipe and plastic household containers. Silica products, which represented 14% of 2000, 1999 and 1998 total Grace sales, are used in a wide variety of industrial and consumer applications such as coatings, food processing, plastics, adsorbents and personal care products.

In 2000, refining catalyst sales were $445.7 million, an increase of 4.9% over 1999. Excluding the ICI acquisition discussed above, refining catalysts sales for the year 2000 were $431.7 million, or a 1.6% increase over 1999. This increase is a result of volume gains in Latin America, Asia Pacific and Europe partially offset by volume declines in North America. Excluding the negative impact of currency translation, 2000 sales were up 9.6%.

Chemical catalyst sales increased 3.3% to $117.0 million in 2000, as growth in automotive washcoat materials was partially offset by softer demand for polyolefin catalysts, as producers reduced polymer inventory. Production rates were revised sharply downward in the fourth quarter of 2000 and are expected to rebound in the second half of 2001.

Silica products sales in 2000 were up 3.9% to $221.2 million compared to 1999. Excluding the Ludox(R) acquisition discussed above, silica products sales declined 2.1% to $208.4 million, as volume gains in coatings and adsorbents were offset by negative currency translation. Excluding the negative impact of currency translation, 2000 sales were up 11.2%. This negative translation effect was primarily due to the fact that a significant portion (45.1% of sales) of this business is based in Europe, where currencies weakened in relation to the U. S. dollar during 2000.

In 1999, refining catalyst sales decreased 4.3% compared to 1998, as an overall reduction in global demand resulted in volume declines in North America and Asia Pacific, which were only partially offset by volume gains in Europe. Chemical catalyst sales increased 6.6% largely due to volume growth in North America and Europe. Silica products sales were up 0.8% in 1999 versus 1998, with all regions showing favorable volume comparisons, except for North America. The decline in North America was a result of competitive pressures in molecular sieve applications.

Operating Earnings

Pre-tax operating income of $131.6 million produced a 5.9% increase over 1999. The improvement in operating income was primarily attributable to cost savings generated from Six Sigma (approximately $20 million) which served to fully offset increased energy costs and the negative impact of foreign currency translation. Operating margins improved 0.3 percentage points to 16.8%.

Pre-tax operating income of $124.3 million in 1999 improved 15.6% over $107.5 million in 1998. Despite lower sales, operating margins improved 2.4 percentage points to 16.5%, due to manufacturing efficiencies derived from Grace's productivity improvement program.

PERFORMANCE CHEMICALS

NET SALES	2000	1999	% Change Fav(Unfav)
Construction chemicals	$ 348.7	$ 334.3	4.3%
Building materials..........	228.0	224.3	1.6%
Container products..........	236.8	241.2	(1.8%)
TOTAL PERFORMANCE CHEMICALS.	$ 813.5	$ 799.8	1.7%

	1999	1998	% Change Fav(Unfav)
Construction chemicals	$ 334.3	$ 316.0	5.8%
Building materials..........	224.3	219.8	2.0%
Container products..........	241.2	249.0	(3.1%)
TOTAL PERFORMANCE CHEMICALS.	$ 799.8	$ 784.8	1.9%

Recent Acquisitions

In December 1999 Grace acquired Sociedad Petreos S.A.'s "Polchem" concrete admixture and construction chemicals business from Cemento Polpaico S.A. Chile, an affiliate of Holderbank of Switzerland. For 2000, this business had sales of approximately $6 million. In March 2000, Grace acquired International Protective Coatings Corp. (IPC) which contributed sales of approximately $5 million for the year 2000. In July 2000, Grace acquired the Hampshire Polymers business from the Dow Chemical Company. This business had sales of approximately $12 million for 2000. These acquisitions have been accounted for as a purchase business combination, and accordingly, the results of operations of the acquired businesses have been included in the consolidated statement of operations from the date of their respective acquisitions.

Sales

Performance Chemicals was formed in 1999 by combining the previously separate business segments of Grace Construction Products and Darex Container Products. These businesses were consolidated under one management team to capitalize on infrastructure synergies from co-location of headquarters and production facilities around the world. The major product groups of this business segment include specialty construction chemicals and specialty building materials used primarily by the nonresidential construction industry; and container sealants and coatings for food and beverage packaging, and other related products. Construction chemicals, which represented 22% of 2000 and 1999 total Grace sales

(20% in 1998) add strength, control corrosion, and enhance the handling and application of concrete. Building materials, which represented 14% of 2000, 1999 and 1998 total Grace sales, prevent water damage to structures and protect structural steel against collapse due to fire. Container products, which represented 15% of 2000 total Grace sales (16% in 1999 and 1998), seal beverage and food cans, and glass and plastic bottles, and protect metal packaging from corrosion and the contents from the influences of metal.

Net sales of Performance Chemicals products increased 1.7% in 2000 compared to 1999 despite the effect of currency weakness in Europe and Latin America compared to the U.S. dollar, which adversely impacted sales by $18.9 million for 2000. Excluding the impact of this currency translation, sales increased 4.2%.

In 2000, sales of construction chemicals were $348.7 million, an increase of 4.3% over 1999. Excluding the "Polchem" acquisition discussed above, 2000 sales for construction chemicals were approximately $343 million. The increase was driven by penetration of high-performance products in all three product areas, especially durable concrete and value added water reducers programs. However, the softening construction market served to partially offset gains contributed by these products. The construction market is not expected to gain strength during 2001;therefore, minimal sales growth is expected in this product line.

Sales of building materials increased 1.6% to $228.0 million in 2000 compared to 1999. This growth was attributable to new product sales in fire protection and volume gains in roofing underlayments. Currency translation in Europe and weak construction activity in the United Kingdom partially offset these gains.

Sales of container products declined 1.8% in 2000. The acquisition of Hampshire Polymers drove increases in the second half of the year of $12.0 million, or 5.0% over 1999, while volume gains in can sealing and coatings were more than offset by unfavorable foreign exchange in 2000.

In 1999, Performance Chemicals sales increased 1.9% compared to 1998, as sales increases in construction chemicals and building materials were partially offset by a sales decrease in container products. Sales of construction chemicals were up 5.8% in 1999, driven by volume growth worldwide and favorable price/mix in all regions except Asia Pacific. Sales of building materials were up 2.0% in 1999, reflecting increases in North American volumes and price/mix. Container products sales decreased 3.1% in 1999 versus 1998. Unfavorable economic conditions in Latin America and worldwide customer consolidations in can sealants, offset by favorable price/mix in Europe and Latin America, all contributed to the sales decline. Currency translation had a 4.0% negative impact on results year-over-year.

Operating Earnings

Pre-tax operating income decreased 9.7%, from $105.8 million in 1999 to $95.5 million in 2000. This decrease in pre-tax operating income was caused by increased transportation costs in construction chemicals and higher petroleum-based raw materials costs in both building materials and container products, offset by productivity efficiencies realized through Six Sigma initiatives.

Pre-tax operating income of $105.8 million in 1999 was up 35.5% compared to pre-tax operating income of $78.1 million in 1998 (which included a $10.3 million restructuring charge taken to cover headcount reduction and a worldwide site rationalization). Excluding the restructuring charge, the increase was 19.7%. This increase was driven by a $20.0 million improvement in margin, reflecting sales increases, value-added product penetration and substitution and manufacturing cost reductions. An increase in operating expenses due to the consolidation of a Japanese joint venture was offset by continued productivity initiatives, principally restructuring and consolidation of infrastructure, resulting in reduced operating, selling and research and development expenses.

DISCONTINUED OPERATIONS

PACKAGING BUSINESS

As discussed in Notes 1 and 4 to the Consolidated Financial Statements, the Spin-off and Merger were completed on March 31, 1998. The 1998 loss from discontinued operations includes $32.6 million ($28.3 million after tax) of costs related to the Packaging Business transaction and $8.4 million ($5.5 million after-tax) for a related pension plan curtailment loss.

CROSS COUNTRY STAFFING

In July 1999, the Company completed the sale of substantially all of its interest in Cross Country Staffing (CCS), a provider of temporary nursing and other healthcare services, for total cash proceeds of $184.6 million. The Company's investment in CCS had been accounted for under the equity method. The sale resulted in a net pre-tax gain of $76.3 million ($32.1 million after tax), including the cost of the Company's purchase of interests held by third parties in CCS and the amount payable under CCS's phantom equity plan. Certain contingent liabilities, primarily related to tax matters of CCS, have been retained by the Company.

RETAINED OBLIGATIONS

Under certain divestiture agreements, the Company has retained contingent obligations that could develop into situations where accruals for estimated costs of defense or loss would be recorded in a period subsequent to divestiture under generally accepted accounting principles. The Company assesses its retained risks quarterly and accrues amounts to be payable related to these obligations when probable and estimable.

In 2000, Grace recorded net charges of $6.2 million ($4.1 million after tax) relating to such obligations; a similar charge of $25.7 million ($16.7 million after tax) was recorded in 1999. Grace is unable to predict whether or to what extent similar charges will have to be recorded in 2001.

FINANCIAL CONDITION

The charts below are intended to enhance the readers' understanding of Grace's overall financial position by separately showing assets, liabilities and cash flows related to core operations from those related to noncore activities. The Company's financial strategy is to maximize returns and cash flows from core operations to fund business growth and to provide resources to satisfy noncore obligations. The Company's management structure and activities are tailored to the separate focus and accountability of core operations and noncore activities.

CORE OPERATIONS (Dollars in millions)	2000	1999
BOOK VALUE OF INVESTED CAPITAL		
Receivables	$187.4	$ 181.9
Inventory	144.2	128.2
Properties and equipment, net	596.2	611.2
Intangible assets and other.............	437.8	345.9
ASSETS SUPPORTING CORE OPERATIONS........	1,365.6	1,267.2
Accounts payable and accruals...........	(329.9)	(358.1)
CAPITAL INVESTED IN CORE OPERATIONS......	$1,035.7	$909.1
After-tax return on avg invested capital	12.0%	12.5%
CASH FLOWS:		
Pre-tax operating income	$187.1	$178.1
Depreciation and amortization	87.8	89.2
PRE-TAX EARNINGS BEFORE DEPREC./AMORT. ..	274.9	267.3
Capital expenditures	(62.1)	(82.5)
Businesses acquired	(52.6)	(9.4)
Other changes	(123.6)	(20.6)
NET CASH FLOW FROM CORE OPERATIONS.......	$36.6	$154.8

The Company has a net asset position supporting its core operations of $1,035.7 million at December 31, 2000 compared to $909.1 million at December 31, 1999 (including the cumulative translation account reflected in Shareholders' Equity of $140.2 million for 2000 and $106.1 million for 1999). The change in the net asset position is primarily due to investments in acquired businesses and pension credits relating to a strong return on pension assets in 1999. After-tax return on capital invested in core operations decreased by 0.5 percentage points in 2000, reflecting the 5% increase in core operating earnings year-over-year coupled with higher overall invested capital. Cash flows from core operations decreased primarily due to new businesses acquired.

NONCORE ACTIVITIES (Dollars in millions)	2000	(Restated) 1999
BOOK VALUE OF ASSETS AVAILABLE TO FUND NONCORE OBLIGATIONS:		
Cash and other financial assets	$ 327.2	$ 345.8
Properties and investments	8.2	8.8
Asbestos-related insurance receivable	372.0	371.4
Tax assets, net..............................	295.7	318.3
ASSETS AVAILABLE TO FUND NONCORE OBLIGATIONS	1,003.1	1,044.3
Noncore liabilities:		
Asbestos-related liabilities..................	(1,105.9)	(1,084.0)
Environmental remediation.....................	(174.9)	(215.5)
Postretirement benefits.......................	(189.1)	(201.4)
Retained obligations and other................	(78.1)	(99.1)
TOTAL NONCORE LIABILITIES.....................	(1,548.0)	(1,600.0)
NET NONCORE LIABILITY.........................	$ (544.9)	$ (555.7)
CASH FLOWS:		
Pre-tax (loss) income from noncore activities..	$ (188.4)	$ 37.2
Provision for asbestos-related litigation, net of insurance recovery.....................	208.0	--
Proceeds from noncore asset sales	9.6	171.1
Other changes................................	(8.7)	15.0
Cash spending for:		
Asbestos-related litigation, net of insurance recovery................................	(196.2)	(42.8)
Environmental remediation..................	(47.2)	(25.0)
Postretirement benefits....................	(23.0)	(19.6)
Retained obligations and other.............	(17.3)	(71.7)
NET CASH FLOW FROM NONCORE ACTIVITIES	$ (263.2)	$ 64.2

The Company has a number of financial exposures originating from past businesses, products and events, the largest of which is asbestos-related liabilities (discussed below and in detail in Notes 1 and 3 to the Consolidated Financial Statements). These obligations arose from transactions and/or business practices that date back to when Grace was a much larger company, when it produced products or operated businesses that are no longer part of its revenue base, and when government regulations and scientific knowledge were much less advanced than today. Grace's current core operations, together with other available assets, are being managed to generate sufficient cash flow to fund these obligations over time.

The table above displays the 2000 and 1999 book value of Grace's noncore liabilities and the assets available to fund such liabilities. The Filing could materially change the amounts reported in the table above, which does not give any adjustments to the carrying value of assets or liabilities that might be necessary as a consequence of a plan of reorganization. Each noncore liability has different characteristics, risks and expected liquidation profile. Taken together, these liabilities represent $1,548.0 million of Grace's total liabilities as reflected on its balance sheet at December 31, 2000. Assets available to fund noncore liabilities consist of cash and cash equivalents, net cash value of life insurance where Grace is the beneficiary, property and investments not used in core operations, insurance coverage for asbestos-related litigation and net tax assets related to noncore liabilities. These assets, in the aggregate, totaled $1,003.1 million at December 31, 2000.

ASBESTOS-RELATED MATTERS

Grace is a defendant in lawsuits relating to previously sold asbestos-containing products. In 2000, Grace paid $196.2 million for the defense and disposition of asbestos-related property damage and bodily injury litigation, net of amounts received under settlements with insurance carriers, compared to net expenditures in 1999 of $42.8 million. At December 31, 2000, Grace's balance sheet reflects a gross liability of $1,105.9 million and a liability net of insurance recovery of $733.9 million, which represents management's estimate as of the balance sheet date (in conformity with generally accepted accounting principles) of the undiscounted net cash outflows in satisfaction of Grace's current and expected asbestos-related claims.

The Consolidated Balance Sheet at December 31, 2000 includes total amounts due from insurance carriers of $372.0 million pursuant to settlement agreements with insurance carriers and net deferred tax assets of $264.0 million related to future net tax deductions for asbestos-related matters. The recovery of amounts due from insurance carriers is consistent with the timing of payment of an asbestos claim. Recovery of the tax benefits, however, is dependent on other factors such as profitability of the Company's U. S. subsidiaries and, given the Company's current net operating loss carryforward position, such benefits are unlikely to be utilized for the foreseeable future.

In the fourth quarter of 2000, Grace recorded a charge of $208.0 million (net of expected insurance recovery) to account for several adverse developments in its asbestos-related litigation, including: a significant increase in bodily injury claims; higher than expected costs to resolve certain property damage and bodily injury claims; and defense costs related to new class-action lawsuits alleging damages from a former attic insulation product not previously subject to property damage litigation. In addition, over the past year, five codefendant companies in asbestos bodily injury

litigation have petitioned for bankruptcy court protection, contributing to the risk that Grace will be subject to more claims than previously projected, with higher settlement demands.

See Notes 1 and 3 to the Consolidated Financial Statements for further information concerning asbestos-related lawsuits and claims.

ENVIRONMENTAL MATTERS

Grace is subject to loss contingencies resulting from extensive and evolving federal, state, local and foreign environmental laws and regulations relating to the generation, storage, handling, discharge and disposition of hazardous wastes and other materials. Expenses of continuing operations related to the operation and maintenance of environmental facilities and the disposal of hazardous and nonhazardous wastes totaled $26.4 million in 2000, $31.1 million in 1999 and $38.2 million in 1998. Such costs are estimated to be between $25 and $30 million in each of 2001 and 2002. In addition, capital expenditures for continuing operations relating to environmental protection totaled $4.0 million in 2000, $5.7 million in 1999 and $6.3 million in 1998. Capital expenditures to comply with environmental initiatives in future years are estimated to be between $5 million and $7 million in each of 2001 and 2002. Grace also has incurred costs to remediate environmentally impaired sites. These costs were $47.2 million in 2000, $25.0 million in 1999 and $36.9 million in 1998. These amounts have been charged against previously established reserves. At December 31, 2000, Grace's liability for environmental investigatory and remediation costs related to continuing and discontinued operations totaled $174.9 million, as compared to $215.5 million at December 31, 1999. Future pre-tax cash outlays for remediation costs are expected to average between $25 and $40 million over the next few years.

POSTRETIREMENT BENEFITS

Grace provides certain postretirement health care and life insurance benefits for retired employees, a large majority of which pertain to retirees of previously divested businesses. These plans are unfunded, and Grace pays the costs of benefits under these plans as they are incurred.

An amendment, effective January 1, 2001, to the structure of the retiree-paid premiums for postretirement medical benefits requires all retirees and beneficiaries covered by the postretirement medical plan to contribute a minimum of 20% of the calculated premium for that coverage.

RETAINED OBLIGATIONS OF DIVESTED BUSINESSES

The principal retained obligations of divested businesses relate to contractual indemnification and to contingent liabilities not passed on to the new owner. At December 31, 2000, Grace had recorded $78.1 million to satisfy such obligations. Of this total, $10.9 million is expected to be paid over periods ranging from 2 to 10 years. The remainder represents estimates of probable cost to satisfy specific contingencies expected to be resolved over the next few years.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY POSITION

Borrowing capacity, which existed at December 31, 2000, is no longer available and the outstanding balance on the bank borrowings as of December 31, 2000 of $400.0 million is callable, however it has been stayed as a result of the Filing. Similarly, the accounts receivable securitization program has been terminated subsequent to December 31, 2000. However, Grace does have access to a DIP facility with Bank of America, N.A. in the aggregate amount of $250 million. In addition, Grace has cash and cash equivalents of $191.9 million and cash value of life insurance (net) of $104.3 million as of December 31, 2000 (cash and cash equivalents of $123.3 million and cash value of life insurance (net) of $64.1 million at March 31, 2001). Management believes that the DIP facility and the existing liquid assets will be sufficient to meet the operating needs of Grace over the next year.

CASH FLOW

Grace's net cash flow from core operations was $36.6 million in 2000 compared to $154.8 million in 1999. The decrease of $118.2 million during 2000 was principally the result of cash paid for businesses acquired and unfavorable working capital movements. The pre-tax cash outflow of noncore activities was $263.2 million in 2000 compared to an inflow of $64.2 million in 1999. The large variance between years was caused by several items. In 1999, Grace realized $225.2 million in proceeds from sales of noncore assets, principally the divestment of Cross Country Staffing. Also, in 2000, asbestos related spending was unfavorable by $153.5 million due to higher settlement costs for both property damage and bodily injury claims. The timing of these expenditures

is impacted in part by the Company's legal and cash management strategies. Postretirement benefit payments were consistent with the prior year as these payments are based on comparable year-over-year benefit programs. The payments for retained obligations of divested businesses and other were lower in 2000 and Grace anticipates that this element of noncore activities will continue to decrease, as open issues related to these divested businesses are resolved.

Cash flows used for investing activities in 2000 were $121.8 million, compared to cash provided of $76.7 million in 1999, and cash used of $108.2 million in 1998. Net cash outflows were impacted by businesses acquired in 2000 of $49.0 million and net investment in life insurance policies of $16.3 million, which is detailed below. In 1999, the sale of Cross Country Staffing generated cash of $184.6 million. Proceeds from disposals of assets in 2000 were also lower than 1999, with $11.9 million in 2000 and $40.6 million in 1999. Included in the 1999 amount was the sale of the corporate aircraft for $20.4 million and the sale of certain real properties for a total of $17.1 million.

Total Grace capital expenditures for 2000 and 1999 were $64.8 million and $82.5 million, respectively, substantially all of which was directed toward its business segments. In 1998, Grace made capital expenditures of $100.9 million.

Net cash provided by financing activities in 2000 was $245.1 million as compared to $77.5 million being used in 1999. This principally represents borrowings under credit facilities of $286.6 million, net of repayments, to fund investments in acquired businesses, capital expenditures and no7ncore obligations. In 1999, $95.3 million used to purchase approximately 7 million of the Company's shares as part of the 1998 share repurchase program, was partially offset by proceeds from the exercise of stock options of $26.6 million. Net cash provided by financing activities of $196.6 million in 1998 primarily related to the Packaging Spin-off and Merger described in Notes 1 and 4. In connection with the Packaging Business transaction, Grace received $1,256.6 million in cash, which was used to repay substantially all of its debt. On March 31, 1998, Grace used $600.0 million of the cash transfer to repay bank borrowings. On April 1, 1998, Grace repaid $611.3 million principal amount of Notes pursuant to a tender offer, $3.5 million principal amount of MTNs and $6.0 million of sundry indebtedness. As a result of this early extinguishment of debt, Grace incurred an after-tax charge of $35.3 million for premiums paid in excess of the Notes' principal amounts and other costs related to the purchase of the Notes and MTNs (including the costs of settling related interest rate swap agreements). These costs are presented as an extraordinary item in the Consolidated Statement of Operations.

LIFE INSURANCE

Grace is the beneficiary of life insurance policies on certain current and former employees with benefits in force of approximately $2,286 million and a net cash surrender value of $104.3 million at December 31, 2000, comprised of $452.4 million in policy gross cash value offset by $348.1 million of policy loans. The policies were acquired to fund various employee benefit programs and other long-term liabilities and are structured to provide cash flows (primarily tax-free) over the next 40-plus years.

The Company intends to utilize policy cash flows, which are actuarially projected to range from $15 million to $45 million annually over the policy terms, to fund (partially or fully) noncore liabilities and to earmark gross policy cash value as a source of funding for noncore obligations. The Company also intends to explore structuring options for the policies and policy loans to enhance returns on assets, to reduce policy expenses and to better match policy cash flows with payments of noncore liabilities.

SHARE ACTIVITY

Grace employees currently receive salaries, incentive bonuses, other benefits, and stock options. Each stock option granted under the Company's stock incentive plan has an exercise price equal to the fair market value of the Company's common stock on the date of grant. In 2000, the Company granted a total of 2,555,000 options with an average exercise price of $13.32.

Poor stock price performance or other factors have diminished the value of the option program to current and prospective employees, which caused the Company to change its long-term incentive compensation program into more of a cash-based program and provide cash incentives to the broad employee base through special bonuses and added company contribution to the savings and investment plan.

In May 2000, the Company's Board of Directors approved a program to repurchase up to 12,000,000 of the Company's outstanding shares in the open market. Through December 31, 2000, the Company had acquired 1,753,600 shares of common stock for $12.2

million under this program (an average price per share of $6.98).

INFLATION

The financial statements are presented on a historical cost basis and do not fully reflect the impact of prior years' inflation. While the US inflation rate has been modest for several years, the Company operates in international areas with both inflation and currency issues. The ability to pass on inflation costs is an uncertainty due to general economic conditions and competitive situations. It is estimated that the cost of replacing Grace's property and equipment today is greater than its historical cost. Accordingly, depreciation expense would be greater if the expense were stated on a current cost basis.

THE EURO

Effective January 1, 1999, eleven of the fifteen member countries of the European Union adopted one common currency known as the euro. Grace has operations in 9 of the 11 countries which have adopted the euro and is well positioned to comply with the legislation applicable to its introduction. Grace anticipates that the euro conversion will not have a material adverse impact on its financial condition or results of operations.

ACCOUNTING PRONOUNCEMENTS

In March 2000, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation - an Interpretation of APB Opinion No. 25" ("FIN 44"). FIN 44 clarifies the application of APB Opinion No. 25 and among other issues clarifies the following: the definition of an employee for purposes of applying APB Opinion No. 25; the criteria for determining whether a plan qualifies as a noncompensatory plan; the accounting consequences of various modifications to the terms of previously fixed stock options or awards; the accounting consequences of various modifications to the terms of previously fixed stock options or awards; and the accounting for an exchange of stock compensation awards in a business combination. FIN 44 was effective July 1, 2000, but certain conclusions in FIN 44 cover specific events that occurred after either December 15, 1998 or January 12, 2000. Grace adopted FIN 44 in the third quarter of 2000 and there was no material impact on Grace's results or financial position.

In 2000, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement replaces SFAS No. 125 (of the same name). SFAS No. 140 carries over the main provisions of SFAS No. 125 and also covers issues not addressed in SFAS No. 125 concerning transfers and servicing of financial assets. The adoption of SFAS No. 140 did not have a material impact on Grace's financial statements.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements," subsequently updated by SAB 101A and SAB 101B ("SAB 101"). SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. Grace adopted SAB 101 in the fourth quarter of 2000 and there was no material impact on Grace's results of operations or financial position.

On June 15, 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires, among other things, that all derivative instruments be recognized at fair value as assets or liabilities in the consolidated balance sheet with changes in fair value recognized currently in earnings unless specific hedge accounting criteria are met. At December 31, 2000, the Company did not hold or issue any derivative financial instruments; therefore, the adoption of SFAS No. 133, as amended, on January 1, 2001 did not have a material impact on Grace's financial statements.

FORWARD-LOOKING STATEMENTS

The forward-looking statements contained in this document are based on current expectations regarding important risk factors. Actual results may differ materially from those expressed. In addition to the uncertainties referred to in Management's Discussion and Analysis of Results of Operations and Financial Condition, other uncertainties include the impact of worldwide economic conditions; pricing of both the Company's products and raw materials; customer outages and customer demand; factors resulting from fluctuations in interest rates and foreign currencies; the impact of competitive products and pricing; success of Grace's process improvement initiatives; the impact of tax and legislation and other regulations in the jurisdictions in which the Company operates; and development in and the outcome of the Chapter 11 proceedings discussed above. Also, see "Introduction and Overview - Projections and Other Forward-Looking Information" in Item 1 of Grace's current Annual Report on Form 10-K

Schedule II

W. R. GRACE & CO. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(in millions)

FOR THE YEAR 2000

Description
VALUATION AND QUALIFYING ACCOUNTS DEDUCTED FROM ASSETS:
Allowances for notes and accounts receivable............................
Allowances for long-term receivables....................................
Valuation allowance for deferred tax assets.............................
RESERVES:
Reserves for divested businesses..

FOR THE YEAR 1999 (RESTATED)

Description
VALUATION AND QUALIFYING ACCOUNTS DEDUCTED FROM ASSETS:
Allowances for notes and accounts receivable............................
Allowances for long-term receivables....................................
Valuation allowance for deferred tax assets.............................
RESERVES:
Reserves for divested businesses..

FOR THE YEAR 1998 (RESTATED)

Description
VALUATION AND QUALIFYING ACCOUNTS DEDUCTED FROM ASSETS:
Allowances for notes and accounts receivable............................
Allowances for long-term receivables....................................
Valuation allowance for deferred tax assets.............................
RESERVES:
Reserves for divested businesses..

	Additions/(deductions)		
Balance at beginning of period	Charged/ (credited) to costs and expenses	Other net *	Balance at end of period
$ 4.1	$ 0.3	$ --	$ 4.4
0.8	--	--	0.8
153.2	16.4	--	169.6
$ 99.1	$ 6.2	$ (27.2)	$ 78.1

Additions/(deductions)

Charged/

Balance at Beginning of period	(credited) to costs and expenses	Other net *	Balance at end of period
$ 5.5	$ (1.4)	$ --	$ 4.1
17.1	(16.3)	--	0.8
154.7	(1.5)	--	153.2
$ 76.4	$ 59.8	$ (37.1)	$ 99.1

	Additions/(deductions)		
Balance at Beginning of period	Charged/ (credited) to costs and expenses	Other net *	Balance at end of period
$ 4.6	$ 2.8	$ (1.9)	$ 5.5
16.1	0.2	0.8	17.1
138.2	16.5	--	154.7
$ 123.5	$ (44.6)	$ (2.5)	$ 76.4

* Consists of additions and deductions applicable to businesses acquired, disposals of businesses, bad debt write-offs, foreign currency translation, reclassifications (including the deconsolidation of amounts relating to discontinued operations), cash payments for previously established reserves for divested business and miscellaneous other adjustments.

Note A: The valuation allowance for deferred tax assets has been restated for the years ended December 31, 1999 and 1998. See Note 2 to the Consolidated Financial Statements.

EXHIBIT 12

W. R. GRACE & CO. AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND
COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS (a)
(in millions, except ratios)
(Unaudited)

		Years Ended December 31, (c)			
	2000 (H)	1999	(Restated) 1998 (d)	1997 (e)	1996 (f)
Net (loss) income from continuing operations	$ (89.7)	$ 130.2	$ (194.7)	$ 85.9	$ 112.9
Add (deduct):					
Provision for (benefit from) income taxes	70.0	73.2	(28.5)	51.5	70.4
Equity in unremitted (earnings) losses of less than 50%-owned companies.	(0.5)	(0.2)	(1.2)	(1.0)	(0.4)
Interest expense and related financing costs, including amortization of capitalized interest	30.6	18.8	37.5	89.6	169.8
Estimated amount of rental expense deemed to represent the interest factor	2.9	5.2	5.2	6.9	8.4
Income (loss) as adjusted	$ 13.3	$ 227.2	$ (181.7)	$ 232.9	$ 361.1
Combined fixed charges and preferred stock dividends:					
Interest expense and related financing costs, including capitalized interest	$ 29.1				
Estimated amount of rental expense deemed to represent the interest factor	2.9				
Fixed charges	32.0				
Preferred stock dividend requirements (b)	--				
Combined fixed charges and preferred stock dividends	$ 32.0				
Ratio of earnings to fixed charges	(g)				
Ratio of earnings to combined fixed charges and preferred stock dividends	(g)				

$ 17.0	$ 37.4	$ 94.4	$ 186.1
5.2	5.2	6.9	8.4
22.2	42.6	101.3	194.5
--	--	--	0.6
$ 22.2	$ 42.6	$ 101.3	$ 195.1
10.23	(g)	2.30	1.86
10.23	(g)	2.30	1.85

(a) Grace's preferred stocks were retired in 1996.

(b) For each period with an income tax provision, the preferred stock dividend requirements have been increased to an amount representing the pre-tax earnings required to cover such requirements based on Grace's effective tax rate.

(c) Certain amounts have been restated to conform to the 2000 presentation.

(d) Includes a pre-tax provision of $376.1 for asbestos-related liabilities and insurance coverage; $21.0 relating to restructuring costs and asset impairments, offset by a pre-tax gain of $38.2 for the receipt of insurance proceeds related to environmental matters, partially offset by a charge to reflect a change in the environmental remediation strategy for a particular site.

(e) Includes a pre-tax gain of $103.1 on sales of businesses, offset by a pre-tax provision of $47.8 for restructuring costs and asset impairments.

(f) Includes a pre-tax gain of $326.4 on sales of businesses, offset by pre-tax provisions of $229.1 for asbestos-related liabilities and insurance coverage and $34.7 for restructuring costs and asset impairments.

(g) As a result of the losses incurred for the years ended December 31, 2000 and 1998, Grace was unable to fully cover the indicated fixed charges.

(h) Includes a pre-tax provision of $208.0 million for asbestos-related liabilities and insurance coverage. The provision for income taxes includes a $75.0 million charge for tax and interest relating to tax deductibility of interest on corporate-owned life insurance policy loans.